

BEFORE THE
WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 381

IN THE MATTER OF:

| | | |
|--------------------------------------|---|---------------------------|
| Depreciation Reserve Requirement |) | Served September 11, 1964 |
| and Depreciation Accrual Rates |) | |
| for all operating property of |) | |
| D. C. Transit System, Incorporated.) |) | |
| |) | Docket No. 47 |

By its Order No. 289, served July 29, 1963, the Commission ordered a full scale depreciation study of all operating property of D. C. Transit System, Incorporated, other than buses. The Stone and Webster Service Corporation, consulting engineers, was engaged to make the study and prepare a report.

The Stone and Webster Service Corporation submitted its final Report to the Commission under date of July 1, 1964. The Report is incorporated herein and made a part hereof by reference. Copies of the Report are available for use of the public in the offices of the Commission.

Washington Metropolitan Area Transit Commission Order No. 245 (pp. 23 - 30) discussed the depreciation problems of D. C. Transit System, Incorporated, particularly as they revolved around the Reserve for Depreciation of Rail Properties. It was noted there that the rates of depreciation then in effect were based on the depreciation study sponsored by the D. C. Public Utilities Commission and adopted by its Order No. 4754 on May 24, 1961. These rates were specifically designed and programmed to phase out on August 15, 1963, at which time the special accruals against abandoned rail properties would be discontinued. At the 1963 rate hearing, the Washington Metropolitan Area Transit Commission staff pointed to the possibility of an over-accrual of \$305,559 against rail properties as of August 15, 1963, due to a favorable salvage experience. The Commission

took cognizance of this possibility and of the equal possibility "that offsetting under-accruals in other accounts may also develop by August 15, 1963," stating that it "will consider ordering a new depreciation reserve study at an early date". It went on to explain: "the Commission has noted already that erroneous results are possible when action is taken on over-accruals in one account before related accounts are studied".

The present study thus overcomes the objection to piecemeal adjustments of the depreciation reserve, as it enables the Commission to adjust all classes of depreciable operating property simultaneously.

The Commission is concerned at this time with property other than buses because the reserve applicable to buses became determinable when accrual of depreciation on buses was changed from the group method to the unit basis effective March 1, 1961, by Order No. 4754 of the Public Utilities Commission of the District of Columbia. Under the group method, unless there is a coincidence between the estimated service life and the actual service life, the reserve will become distorted; if actual service life exceeds the estimated service life, depreciation accruals will build the reserve higher than the original cost of the asset. This is the peculiar advantage of the unit basis -- even if actual service life does not coincide with estimated service life, accruals can never exceed original-cost-less-salvage; and at retirement of the asset from service, a specific adjustment is provided for, to compensate for any difference between accrued depreciation, salvage, and cost of removal on the one hand, and original cost on the other.

Thus, as of December 31, 1963, the Reserve for Depreciation of Buses, stood at \$10,339,680.32, made up as follows:

| | |
|---|------------------------|
| Reserve against Improvements to Leased Buses | \$ 77,493.31 |
| Reserve against Fully-Depreciated Buses still in service | 1,959,042.30 |
| Reserve against Buses still accruing depreciation | <u>8,303,144.71</u> |
| Total Reserve against Buses | <u>\$10,339,680.32</u> |

It is to be noted, also, that the aforementioned Order No. 4754 of the Public Utilities Commission established depreciation rates for operating property by broad classes, each class to be depreciated by the group method. However, no specific allocation of accumulated depreciation charges among classes of property was established, so the Reserve for Depreciation continued as a lump-sum figure. The difficulty of allocating or assigning depreciation reserves against property accounts goes back to past depreciation practices. For example, in 1934, depreciation on operating property of D. C. Transit's predecessor company was computed at the composite rate of 1.1%, applied to the total property account; by 1942, the rate of 2% was applied to all property except buses (11.1%) and Providence streetcars (5%); in 1947, the rate went back to a composite 4.9%, applied to all property. It was in 1953 that separate rates began to be applied to different classes of property. Thus there had never really been any specific attempt to construct reserves for each class or item of property which would reflect the accumulated amortization of each item's original cost over the expired portion of its projected service life.

In its Order No. 4754, the Public Utilities Commission found that the rates of depreciation as set (including an additional amortization for rail properties), plus the balance in the depreciation reserve at June 30, 1960, would keep such reserve in proper perspective until August 15, 1963, at which time the special amortization of the cost of rail properties was to terminate. The Public Utilities Commission expressed itself, on p. 6 of its Order No. 4754, as follows:

"If the present depreciation reserve is adequate, as determined, and the annual accrual is sufficient, as demonstrated, then it inevitably follows that a proper amount of depreciation has been charged and is being charged. This situation will obtain until August of 1963 at least, when the special amortization terminates. At that time the operation should be an all-bus operation, and at that time it would be advisable to review the depreciation reserve and annual rates again in the light of the changed situation."

In September, 1963, the Reserve for Depreciation carried on the books of D. C. Transit System, Incorporated, was reduced

\$1,000,000 by transfer to a Special Reserve ordered by the United States District Court for the District of Columbia. This was in connection with the settlement of lengthy court actions concerning transit fares promulgated in 1960 and 1961 by the Public Utilities Commission. The book figure carried by the Company at December 31, 1963, is what remains after the \$1,000,000 was removed from the account.

The staff of the Commission has proposed that any accounting adjustments in connection with the Reserve for Depreciation be made on the books as of January 1, 1964, the 1963 books having been closed. Adjustment at January 1, 1964, would give effect to the new rates of depreciation back to June 30, 1963, which was The Stone and Webster Service Corporation's basic study date, and would also simplify the entire reserve picture by deferring book entries until after the Court-ordered adjustment had been made.

Appendix I is a copy of the schedule summarizing the results of Stone and Webster's depreciation reserve study. As of June 30, 1963, it was determined that included in the Tools and Work Equipment Account were trucks, tractors, and shop and garage equipment with an original cost of \$613,856, which were no longer useful in bus operations. These assets had been of value in the maintenance and operation of rail property, but D.C. Transit System, Incorporated, is now in the process of disposing of these assets for as much salvage as possible. The accounting treatment required to handle this is set forth later in this Order.

Appendix II summarizes the depreciation accrual rates in effect at the time of the study and the rates developed by Stone and Webster. The staff's recommendations coincide with those of Stone and Webster except for Account 525 - Automobiles and Limousines. The staff's recommendation is based on its study of maintenance costs per car as the vehicles age beyond four years; that study, dated April 22, 1964, supports the conclusion that the cost to the ratepayer, for depreciation plus maintenance expense, would be no greater on a four-year life cycle than on a seven-or-eight year rotation basis. Unlike past practice, these vehicles would be depreciated on the unit basis, so that no accrual can ever continue beyond original-cost-less-salvage-value.

Appendix III was prepared by the staff to pick up Stone and Webster's reserve determination (\$3,888,080), and add the reserve for buses (\$11,304,905) to arrive at the total reserve requirement as of August 15, 1963. This was then adjusted to give proper effect to accruals, retirements, and other reserve account activity between June 30, 1963, and December 31, 1963, arriving at the final determination of the reserve requirement of \$14,151,732 at December 31, 1963.

Appendix IV outlines the adjustments required to rectify the balance in the Reserve for Depreciation per the books with the above determination. These adjustments reduce the reserve for depreciation by \$580,658.58 to reflect removal of obsolete equipment from the accounts, and increase the reserve by \$1,223,099.04 to bring it up to the level indicated by the Stone and Webster study and subsequent adjustments.

Findings of Fact and Conclusions of Law

The Commission, having intensively reviewed the Report of The Stone and Webster Service Corporation, together with the recommendations of the Commission staff, after careful deliberation finds and concludes that:

1. The Depreciation Reserve requirement of \$14,151,732.00 as of January 1, 1964, by classes of property as set out in detail in Appendix III is just and proper, and reflects a reasonable relationship between original cost and remaining service lives of the assets of D. C. Transit System, Incorporated, used and useful in the public service, on January 1, 1964. Establishing the depreciation reserves at the \$14,151,732.00 figure has the effect of correcting the reserves for depreciation applicable to all classes of depreciable operating property of D. C. Transit System, Incorporated, at January 1, 1964. The newly-determined reserve figure has no relationship or relevance to rail properties or obsolete properties of any kind. The new reserve figure of \$14,151,732.00 does not contain any previous over-accruals on old buses; it includes, as set out above, only \$1,959,042.30 as a reserve against fully-depreciated buses, such amount being the original cost less estimated salvage value of those buses.

2. The rates of depreciation as recommended by the

Commission Staff, and set out in Appendix II, and further detailed, where relevant, in The Stone and Webster Service Corporation Report, are just, reasonable, and proper.

3. The adjustment required to rectify the depreciation reserve account balance is properly chargeable to the Depreciation Adjustment Suspense Account, as are any and all future adjustments, in the form of debits or credits, to reflect the results of eventual disposition of obsoleted assets.

ORDER

THEREFORE, IT IS ORDERED THAT:

1. Depreciation accruals for all operating property of D. C. Transit System, Incorporated, except buses, shall be calculated and entered on the books at the rates and by the methods indicated in Appendix II to this Order, beginning January 1, 1964.

2. The books and records of D. C. Transit System, Incorporated, shall be made to reflect the adjusting Journal Entries as of January 1, 1964, set out in Appendix V to this Order, additional sub-accounts to be set up as required.

3. Net Salvage realized on sale or other disposition of obsolete items or rail property items considered fully depreciated at August 15, 1963, shall be recorded directly upon occurrence, in the Depreciation Adjustment Suspense Account, 443.1. Proper adjustments shall be made for all such transactions beginning January 1, 1964. (The items concerned here are, or were, in Account 512, Duct System; Account 514, Distribution Cable; Account 515, Tools and Work Equipment; Account 521, Streetcars; Account 524, Rail Service Equipment; Account 525, Automotive Service Equipment; Account 527, Shop and Garage Equipment; Account 532, Substation Buildings; and Account 534, Substation Equipment).

4. Upon retirement of any operating property: (a) if depreciation is on a group basis, the reserve for depreciation

shall be debited and the asset account credited for the original cost of the item; the reserve for depreciation shall also be debited and credited, respectively, for costs of removal and salvage realized; (b) if depreciation is on a unit basis, the asset account shall be credited for the original cost of the item; the reserve for depreciation shall be debited for costs of removal and credited for salvage; and the algebraic sum of the accumulated depreciation taken to date, costs of removal, and salvage, shall be eliminated from the reserve by debiting same; any resulting gain or loss shall be credited or debited, respectively, to Account 99-A, Depreciation Expense Adjustment.

5. This Order shall become effective thirty (30) days after the date of issuance hereof.

BY DIRECTION OF THE COMMISSION:

A handwritten signature in black ink, appearing to read 'Delmer Ison', written in a cursive style.

DELMER ISON
Executive Director

D. C. TRANSIT SYSTEM, INC.
SUMMARY OF PLANT PROPERTY AND REQUIRED RESERVE FOR DEPRECIATION

Appendix I

| Acct. No. | Description | Schedule No. | Col. 1 Balance Per Books 6-30-63 | Col. 2 Property Not Required in Bus Operations | Col. 3 Balance | Col. 4 Required Reserve for Depreciation 8-15-63 | Col. 5 Remaining Cost |
|---|--|-----------------|---|--|--------------------|--|-----------------------------|
| Depreciable Property for Which Reserves Are Established: | | | | | | | |
| 503 | General Office Building | 1 | \$ 1,293,848 | | \$1,293,848 | \$ 732,251 | \$ 561,597 |
| 504 | Shop and Garage Structures | 2 | 5,232,266 | | 5,232,266 | 1,886,300 | 3,345,966 |
| 505 | Station Structures and Facilities | 3 | 211,616 | | 211,616 | 172,573 | 39,043 |
| 515 | Tools and Works Equipment | 4 | 214,981 | \$170,632 | 44,349 | 27,901 | 16,448 |
| 523 | Accessory Equipment for Buses | 5 | 114,250 | | 114,250 | 105,309 | 8,941 |
| 525 | Automotive Service Equipment - | | | | | | |
| | Automobiles | 6 | 157,444 | | 157,444 | 118,136 | 39,308 |
| | Trucks | 7 | 423,537 | 181,542 | 241,995 | 135,654 | 106,341 |
| | Tractors | 8 | 112,172 | 88,065 | 24,107 | 15,538 | 8,569 |
| | Cadillacs | 9 | 236,454 | | 236,454 | 99,127 | 137,327 |
| | Other | 10 | 163,273 | | 163,273 | 98,441 | 64,832 |
| 527 | Shop and Garage Equipment | 11 | 950,644 | 173,617 | 777,027 | 244,588 | 532,439 |
| 528 | Furniture and Fixtures | 12 | 650,922 | | 650,922 | 220,894 | 430,028 |
| 529 | Communication Equipment | 13 | 40,045 | | 40,045 | 31,368 | 8,677 |
| | | | <u>9,801,452</u> | <u>\$613,856</u> | <u>\$9,187,596</u> | <u>\$3,888,080</u> | <u>\$5,299,516</u> |
| Other Depreciable and Non-Depreciable Property: | | | | | | | |
| 522 | Passenger Buses | | 25,510,979 | | | | |
| 522.1 | Improvements to Leased Buses | | 145,757 | | | | |
| 502 | Land | | 1,400,708 | | | | |
| 542 | Organization | | 65,936 | | | | |
| 401.2 | Construction Work in Progress | | 14,208 | | | | |
| 404 | Miscellaneous Physical Property | | <u>1,728,345</u> | | | | |
| | Total Property, Plant and Equipment | | <u>\$38,667,385</u> | | | | |

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION
RECOMMENDED RESERVES FOR DEPRECIATION AT 1/1/64 FOR D. C. TRANSIT
BASED ON STONE & WEBSTER STUDY, AUGUST 15, 1963

| <u>A/C</u> | <u>OPERATING PROPERTY IN SERVICE</u> | Reserve Requirement Per Stone & Webster Study 8-15-63 (Cr.) | Book Entries & WMATC Adjustments Covering the Period 7-1-63 to 8-15-63 Dr. or (Cr.) | Rectifying the Reserve to Agree with Actual Retirement & Salvage Experience 8-16-63 to 12-31-63 Dr. or (Cr.) |
|------------|--------------------------------------|--|--|---|
| 503 | General Office Building | \$ (732,251.00) | \$ | \$ |
| 504 | Shop & Garage Structures: | | | |
| | Grace Street Garage | (152,703.00) | | 19,952 |
| | Bladensburg Base | (35,528.00) | 120 | |
| | Eastern Car House | (313,872.00) | | |
| | Trinidad Garage | (215,189.00) | | |
| | Northern Garage | (466,465.00) | | |
| | Western Garage | (202,388.00) | | |
| | Southeastern Garage | (144,966.00) | | |
| | Brookland Garage | (355,189.00) | | |
| 505 | Station Structures & Facilities | (172,573.00) | | |
| 515 | Tools & Work Equipment | (27,901.00) | (1,215) ^B | |
| 522 | Passenger Buses | (11,238,382.22) ^A | | |
| 522.1 | Improvements to Leased Buses | (66,522.49) ^A | | |
| 523 | Accessory Equipment for Buses | (105,309.00) | | |
| 525 | Automotive Service Equipment: | | | |
| | Automobiles | (118,136.00) | (12,397) ^C | 181 |
| | Trucks | (135,654.00) | | |

| | | | | |
|-----|------------------------------|------------------------------|-----------------------|-------------------|
| | Tractors | (15,538.00) | | |
| | Limousines | (99,127.00) | (71,040) ^C | |
| | Other | (98,441.00) | 1,060 ^B | (375) |
| 527 | Shop & Garage Equipment | (244,588.00) | 2,070 | |
| 528 | Furniture & Office Equipment | (220,894.00) | 15,817 | |
| 529 | Communications Equipment | <u>(31,368.00)</u> | <u> </u> | <u> </u> |
| | Total Per Stone & Webster | (3,888,080.00) | | |
| | Total Per WMATC | (11,304,905.00) ^A | (65,585) | 19,758 |
| | | <u> </u> | <u> </u> | <u> </u> |
| | GRAND TOTAL | \$ <u>(15,192,985.00)</u> | \$ <u>(65,585)</u> | \$ <u>19,758</u> |

A/ Not Included in the Stone & Webster Study

B/ Due to Reclassification of Salt Spreaders to A/C 515 from A/C 525

C/ Due to Use of 22.5% Depreciation Rate and 4 Year Life

APPENDIX IV

ADJUSTMENTS REQUIRED TO RECTIFY BALANCE IN
RESERVE FOR DEPRECIATION AT JANUARY 1, 1964

Reserve for Depreciation, January 1, 1964, Per The Books \$13,509,291.54

Recommended Book Adjustments by WMATC:

1. Obsoleted Equipment, to be scrapped or sold
(net salvage to be adjusted back to Deprecia-
tion Adjustment Suspense Account) (Note A) (580,658.58)
\$12,928,632.96
2. Adjusting books to required reserve level
(net salvage on all properties now considered
fully depreciated to be adjusted back to De-
preciation Adjustment Suspense Account) 1,223,099.04
3. New Reserve for Depreciation, January 1, 1964 \$14,151,732.00

NOTE A: Obsoleted Equipment, per
Stone & Webster Report \$613,856.06

Retirements already entered
on the books by vouchers
#5897-J, #6011-J, & #6142-J,
between July 1 and December
31, 1963 33,197.48

Remainder, to be adjusted \$580,658.58

APPENDIX V

FORMAL JOURNAL ENTRIES ORDERED BY W.M.A.T.C.

| | <u>A/C #</u> | | <u>DR.</u> | <u>CR.</u> |
|----|--------------|---------------------------|---------------------------------|----------------|
| 1. | 443 | Reserve for Depreciation | \$580,658.58 | |
| | 515 | Tools & Work Equipment | | \$149,471.46 |
| | 525 | Trucks | | 181,542.27 |
| | 525 | Tractors | | 88,064.76 |
| | 527 | Shop and Garage Equipment | | 161,580.09 |
| 2. | 443.1 | Depreciation Adjustment | | |
| | | Suspense Account | \$ 1,223,099.04 | |
| | 443 | Reserve for Depreciation | | \$1,223,099.04 |
| 3. | 443 | Reserve for Depreciation- | \$ 14,151,732.00 | |
| | 603 | " " " | -Office Building | \$ 716,820.00 |
| | 604.1 | " " " | -Bladensburg Base | 54,012.00 |
| | .2 | " " " | -Eastern Carhouse | 306,448.00 |
| | .3 | " " " | -Trinidad Garage | 218,249.00 |
| | .4 | " " " | -Northern Garage | 474,424.00 |
| | .5 | " " " | -Western Garage | 204,444.00 |
| | .6 | " " " | -Southeastern Garage | 148,047.00 |
| | .7 | " " " | -Brookland Garage | 361,951.00 |
| | 605 | " " " | Station Structures & Facilities | 164,800.00 |
| | 615 | " " " | -Tools and Work Equipment | 7,344.00 |
| | 622 | " " " | -Passenger Buses | 10,262,187.00 |
| | 622.1 | " " " | -Improvements to Leased Buses | 77,494.00 |
| | 623 | " " " | -Accessory Equipment for Buses | 107,097.00 |
| | 625 | " " " | -Automotive Service Equip. | 567,609.00 |
| | 627 | " " " | -Shop & Garage Equipment | 242,230.00 |
| | 628 | " " " | -Furniture & Office Equip. | 213,670.00 |
| | 629 | " " " | -Communications Equipment | 24,906.00 |